

# COMMONWEALTH OF AUSTRALIA

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|------------------------------------|------------------------|------------------|--------------------|--|--|--|--|
|                                    | <b>Family Name</b>     |                  |                    |  |  |  |  |
|                                    | <b>Given Names</b>     |                  |                    |  |  |  |  |
|                                    | <b>Student Number</b>  |                  |                    |  |  |  |  |
|                                    | <b>Teaching Period</b> | Semester 2, 2016 |                    |  |  |  |  |
|                                    |                        |                  |                    |  |  |  |  |
| <b>FINAL EXAMINATION</b>           |                        | <b>DURATION</b>  |                    |  |  |  |  |
| <b>ECO504 – Business Economics</b> |                        |                  |                    |  |  |  |  |
|                                    |                        | Reading Time:    | <b>10 minutes</b>  |  |  |  |  |
|                                    |                        | Writing Time:    | <b>180 minutes</b> |  |  |  |  |
|                                    |                        |                  |                    |  |  |  |  |

### INSTRUCTIONS TO CANDIDATES

The examination has **three** sections

|   |   |
|---|---|
| <b>Section A:</b><br>Suggested Time: 30 mins  | <b>Multiple Choice Questions:</b> Answer ALL 20 questions.<br>Marks as indicated on paper                 |
| <b>Section B:</b><br>Suggested Time: 110 mins | <b>Short Answer Questions:</b> Answer ANY 4 questions out of 6 questions.<br>Marks as indicated on paper. |
| <b>Section C:</b><br>Suggested Time: 40 mins  | <b>Essay Question:</b> Answer 1 out of 2 questions.<br>Marks as indicated on paper.                       |

### EXAM CONDITIONS

**You may begin writing from the commencement of the examination session.** The reading time indicated above is provided as a guide only.

This is a RESTRICTED OPEN BOOK examination

Any non-programmable calculator is permitted

No handwritten notes are permitted

Any hard copy, unannotated English dictionary is permitted

| <b>ADDITIONAL AUTHORISED MATERIALS</b>      | <b>EXAMINATION MATERIALS TO BE SUPPLIED</b> |
|---|---|
| No additional printed material is permitted | 1 x 16 Page Book<br>1 x Scrap Paper         |

## Section A

### Multiple Choice Questions

**Total marks for this section: 20**

Answer **all** questions

This section should be answered in the Answer Booklet provided (16 page booklet).

Each question is worth one mark.

Suggested time allocation: 30 mins.

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## Section B

### Short Answer Questions

Total marks for this section: 20

Suggested time allocated for this section 110 minutes

**Answer any 4 of the 6 Short Question**

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#### **Question 1**

A business making high-quality ball-point pens faces a number of challenges next year. It is concerned with the slow-down in the Europe, Australia and the US economies, together with a growing shift to the use of laptops and tablet devices by young people, which is likely to damage its long-term viability. It is in this context, what should the ball-point pens manufacturer do? Should he close this business and start something else? How should he respond to these two external challenges? Explain your reasoning. (5 marks)

#### **Question 2**

The market for ice-cream in Darwin has the following demand and supply schedules.

| <u>Price (\$)</u> | <u>Quantity Demanded</u> | <u>Quantity Supplied</u> |
|-------------------|--------------------------|--------------------------|
| 4                 | 135                      | 26                       |
| 5                 | 104                      | 53                       |
| 6                 | 81                       | 81                       |
| 7                 | 68                       | 98                       |
| 8                 | 53                       | 110                      |
| 9                 | 39                       | 121                      |

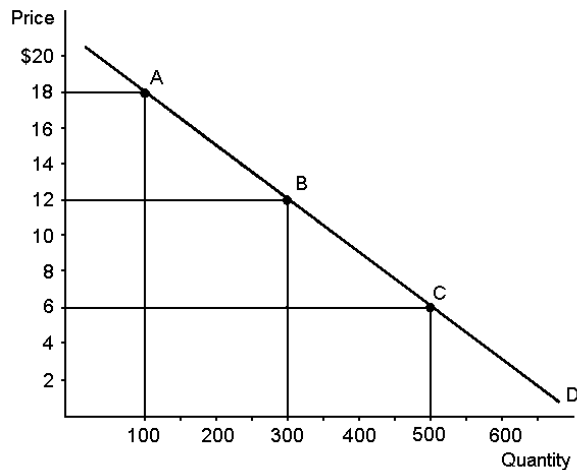
- (a) Based on the information presented in the table above, graph the demand and supply curves for ice-cream in Darwin. What is the equilibrium price and quantity in this market? (3 marks)
- (b) If the actual price in this market were above the equilibrium price, what would drive the market towards the equilibrium? (1 marks)
- (c) If the actual price in this market were below equilibrium price, what would drive the market towards the equilibrium? Present your answer using appropriate graph(s). (1 marks)

### Question 3

Refer the graph below. Using the midpoint method, compute the elasticity of demand between points A and B. You must also show the formula for calculating the midpoint elasticity. Is this portion of the curve elastic or inelastic? (3 marks)

Interpret your answer with regard to price and quantity demanded. (1 mark)

Now compute the elasticity of demand between points B and C. Is this portion of the curve elastic or inelastic? (1 mark)



### Question 4

Explain, the following statement using appropriate diagrams and well-argued reasoning.

‘High prices traditionally cause expansion in an industry, eventually bringing an end to high prices and manufacturers’ prosperity.’ (5 marks)

### Question 5

International trade in each of the following products has rapidly increased over the years, benefitting billions of people in terms of employment opportunities and improved living standards. Suggest some reasons why this might be the case in each of the products.

(5 marks)

- Wheat.
- Banking services.
- Computer software.
- Automobiles.

### **Question 6**

Suppose that the economy is in a long-run equilibrium:

a. Use a diagram to illustrate the state of the economy. Be sure to show aggregate demand, short-run aggregate supply and long-run aggregate supply. (3 marks)

b. Now suppose that a financial crisis causes aggregate demand to fall. Use your diagram to show what happens to output and the price level in the short run. What happens to the unemployment rate? (1 marks)

c. Use the sticky wage theory of aggregate supply to explain what will happen to output and the price level in the long run (assuming there is no change in policy). What role does the expected price level play in this adjustment? Be sure to illustrate your analysis with a graph. (1 marks)

## Section C

### Essay Questions

**Total No of Marks for this section: 10 marks**

This section should be answered in the Answer Booklet provided.

Answer ANY one (1) of the two (2) essays (equal marks).

Suggested time allocation for this Section: 40 minutes

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#### **Question 1**

In Metropolitan cities like Sydney and Melbourne rising traffic congestions and increasing road accidents have led some policymakers to consider taxing road users rather than investing on developing new roads and highways. There are some who argue that even if the government invests a huge amount of resources on developing new roads and highways there is no guarantee that traffic congestions and road accidents will reduce as better road networks might encourage people to continue to use private car instead of public transport. It is in this context, answer the following questions:

- (a) What policy measures would you advise to the government to address these issues? Give examples and reasoning to support your answer. (5 marks)
- (b) Is the introduction of a 'pigovian tax' to correct these externalities appropriate? If so, explain how would it work to control these negative externalities? Use an appropriate diagram to explain this. (5 marks)

#### **Question 2**

Assume that the Australian economy is in a recession. Explain how each of the following policies would affect its consumption and investment. In each case, indicate any effects resulting from changes in total output, changes in the interest rate and the overall effect. Critically argue if there are conflicting effects.

- a. An increase in government spending. (3 marks)
- b. A reduction in taxes. (3 marks)
- c. An expansion of the money supply. (4 marks)

**END OF EXAM**